

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Peru

**Post:** Lima

### Cotton Update

**Report Categories:**

Cotton and Products

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**Report Highlights:**

Cotton production in Peru is expected to rebound 50 percent to 38,000 metric tons (MT) in calendar year (CY) 2011. Cotton imports into Peru are expected at 70,000 MT in CY 2011, all from the United States.

**General Information:**

Cotton production in Peru is expected to rebound 50 percent to 38,000 metric tons (MT) in calendar year (CY) 2011. This is a significant increase from the all time low of 25,000 MT. Until a few years ago, cotton was an important crop in Peru with an annual production of around 90,000 MT. Cotton producers in Peru face several hurdles for increasing cotton production such as low yields, small land plots and lack of good genetics. Cotton imports into Peru are expected at 70,000 MT in CY 2011, all from the United States.

**Production:**

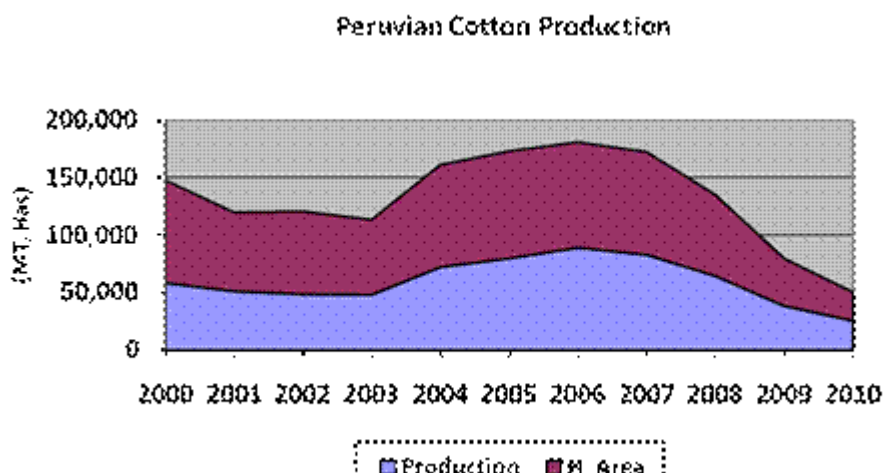
Cotton production in Peru is expected to rebound 50 percent to 38,000 metric tons (MT) in calendar year (CY) 2011. This increased is mainly due to a delay in the beginning of the rainy season that has prompted producers to replace rice and corn areas with cotton.

Cotton production has fallen significantly from the 89,000 MT produced in CY 2006. Several factors have contributed to this reduction, the most significant factor being farmers' inefficiency which is the result of no genetic improvement in the crop, low yields, and lack of proper fertilization. Another important factor that has influenced crop producers is their own unwillingness to establish associations. The typical cotton producer farms less than 5 hectares which makes the purchase of inputs and increasing mechanization difficult and expensive. The government has had some initiatives such as credit lines and technical assistance for farmers that formed association but such measures have not had a significant effect on the traditional cotton producer. Cotton subsidies in other supplying countries, thread and textile dumping from India and China, and better profit opportunities in other crops have also played an important role in reducing Peruvian cotton output.

Peru grows two major and two minor varieties of cotton. Of the major varieties, Tanguis, is a long staple cotton (LS), grown in the central coast of Peru, and is used for yarns. Pima, is an extra long staple cotton (ELS), grown in the northern region, mostly in Piura, and it is used for higher quality textiles. Del Cerro and Aspero (rough) are minor varieties, accounting for about 0.1 and 3.1 percent of total local production respectively.

Accounting for about 80 percent of the total cotton grown in Peru, Tanguis is the most common cotton variety produced. The long growing season for Tanguis, which is about nine months, is a major disadvantage for producers. Generally in Peru, farmers work two crops per year (the main crop and the small crop). Cotton is used for the main crop and a type of bean is usually the small crop. The long growing period also increases the incidence of pests, such as the Pink Boll Weevil. In some cases, the cost of pesticides in the Tanguis producing areas accounts for almost 50 percent of the total cost of production. Peruvian cotton producers also have to face other weaknesses, such as inefficiency caused by the extremely small size of the average producing unit, low yields due to poor agricultural practices and seed quality, lack of technical assistance, informality, and lack of credit. Tanguis cotton is doomed to disappear in the near future, especially in the northern coast where more efficient ELS cottons such as Hazera are gaining terrain.

The Peruvian Cotton Institute (IPA) has developed and is currently marketing a new cotton variety, IPA-59. This is an ELS white cotton with a vegetative period of six months. IPA-59 is 37 mm long with a micronaire of 4.2 - 4.5 and a resistance of 38 grams per tex. There are 1,500 hectares already planted with this variety. IPA is a private, non-profit organization that brings together most of the players in the cotton value chain: producers, gins, traders, and the textile industry. IPA's primary responsibility is to increase competitiveness of the cotton industry through research.



In addition to the long growing season and pests, Peruvian cotton producers also face other weaknesses such as inefficiencies caused by:

- Extremely small size of the average producing unit—90 percent of producers farm less than five hectares which prevents them from benefiting from economies of scale.
- Low yields—the average yield in CY2011 is expected to be 930 kilograms of fiber per hectare—as the result of inadequate agricultural practices, including replanting harvested seed and a lack of fertilization.
- Insufficient credit access—most producers do not have land titles or viable collateral to guarantee a credit line and commercial banks do not risk lending to them. Producers obtain credit from informal lenders at interest rates as high as 8 – 10 percent per month.

<b>Cotton Characteristics by Variety</b>				
	Tanguis	Pima	Del Cerro	Aspero
Growing period (days)	260 - 280	235 - 250	180 - 190	240 - 250
Fiber length (mm)	29.4 - 32.5	33.3 - 36.5	33.3 - 36.5	26.2 - 27.0
Resistance (lbs/sq.inch)	86,000 - 88,000	92,000 - 95,000	92,000 - 95,000	80,000
Micronaire (units)	4.6 - 5.8	3.5 - 4.2	3.6 - 3.8	6.5
Color	white	white/beige	white	white/beige

Cotton prices to farmers increased 43 percent in CY 2010 reaching \$2,455 per MT of fiber.

<b>Average Cost of Production per Hectare (Intermediate Technology)</b>	
<b>DIRECT COST</b>	<b>1455.04</b>
<b>1. LABOR</b>	<b>585.51</b>
- Land preparation	49.65

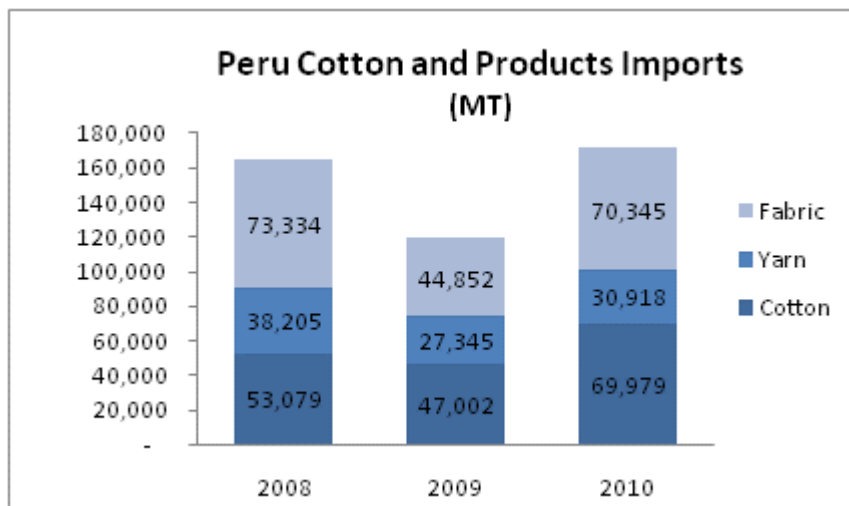
- Planting	33.11
- Cultural practices	124.13
- Harvesting	378.62
<b>2. EQUIPMENT</b>	<b>157.93</b>
<b>3. INPUTS</b>	<b>671.17</b>
- Seeds	82.76
- Water	39.17
- Fertilizers	214.97
- Insecticide	302.96
- Fungicide	2.29
- Others	29.02
<b>4. TRANSPORTATION</b>	<b>40.43</b>

## Trade:

Despite the increase in local production, cotton imports into Peru are expected at 70,000 MT in CY 2011. An increased demand from the textile industry as a result of the stronger demand from both international and local markets will absorb the higher supply. With exports of 69,979 MT, the United States was the sole supplier of cotton to Peru in CY 2010.

Peru's cotton exports are very small. Total cotton exports in CY 2003 were 3,000 MT of which 771 MT was cotton waste.

Cotton imports into Peru are assessed 9 percent import duties. Under the U.S.-Peru Trade Promotion agreement, U.S. cotton is granted duty free access.



## Policy:

There is no official government policy to support cotton production in Peru. There have been some efforts by the Exporters Association to promote the quality of Peruvian cotton in foreign countries and to try to set some quality standards.

Credit is one of the most important factors for cotton producers. After the bankruptcy of the Agricultural Bank, a state owned bank that lent subsidize credits without collateral, not a single private credit institution would lend money to the agricultural sector. This has changed somewhat in recent years, as private banks are lending money to agricultural entrepreneurs, but they are too expensive or not available for small producers. Tanguis producers are the most affected by the lack of credit. Due to the long growing period, they need credits to buy inputs and to pay for their expenses until harvesting season.

The ginning industry plays a key role in cotton production; they do not only process raw cotton but also grant financing for inputs, and sometimes, technical assistance to producers.

